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FINANCE AND CREDIT IN A SOCIALIST ECONOMY

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The Soviet state has organized, and widely uses, a system of financial relationships in building its socialist society, strengthening its economic and military power and raising the workers' material and cultural standard of living.

Financial relations within the Soviet economy are based on the distribution of funds by the state. By means of this distribution a planned allocation of the material and human resources of the society is achieved. This distribution is also related to the task of state control over the economy and over the most appropriate utilization of these resources.

The social product of a socialist society is produced and considered as goods, representing not only an aggregate of use-values, but also a total of labor value. Expenditures of human labor and of materialized social effort are measured in a money form by the prices of goods which possess different qualitatively unequal use-values. The process of production in socialist enterprises presupposes the disbursement of monetary means in payment for the means of production and for labor. These outlays are recovered by enterprises in monetary proceeds from the sale of goods. In addition, monetary resources representing the value of the surplus product are part of the receipts. The distribution of the social product in the Soviet economy is realized in the turnover of goods and is therefore associated with the circulation of money.

Monetary resources appearing at enterprises as receipts from the sale of goods are distributed by planned action of the state. The money income of the population is also partially attracted into the channels of the

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financial system. The distribution of money establishes, in accordance with expanded socialist reproduction, the necessary proportions in the allocation of the social product between production and consumption, between branches of the economy, and between the segments of private consumption and the satisfaction of collective needs. The collection and disbursement of money resources, in conformity with the national plan, and the regulation of monetary circulation are realized by the financial system.

In the financial system, the monetary receipts of government enterprises and organizations and to a certain degree the monetary income of cooperative and kolkhoz enterprises are the sole monetary reserve fund representing the social product of socialist society.

Subordinating economic laws of value to a plan, and thereby reforming these laws, the Soviet state utilizes them in the interests of socialism, in particular by its use of financial methods. By allocating capital among the various segments of the economy, and at the same time supervising the disposition of this capital, the state uses financial methods for the planned direction of the economy. Thus the financial system is one of the very real methods of state administration.

The capitalist law of profits does not operate in our economy. The redistribution of means of production and of manpower from one branch of the economy to another does not occur spontaneously due to migration of capital in the so-called loan market, but in an organized fashion with the participation of the state financial system. It is mainly through this system that the state realizes its economic-organizational functions.

The sources of the financial means allocated, the scheme of distribution and the effect of financial actions on the processes of production and distribution are all specified, first, by the general pattern of distribution of the social product under socialism, and second, by the methods of administration of the economy on the basis of cost accountability (khoz-raschet).

Concerning the distribution of the social product under socialism, Marx has pointed out that before the product may be distributed to the individual producer, that is, the worker, it is necessary first to compensate for the depreciation of capital goods, second to set aside a part for the expansion of production, and third to create a reserve or "insurance" fund. From the remaining part of the total product, it is necessary to cover administrative expenses, to provide necessities of communal consumption -- schools, hospitals, etc. -- and to create funds for the incapacitated. Finally, the balance of the social product is distributed to the members of the society, according to the amount and quality of their labor.

This scheme of distribution of the social product is expressed through employment of a system of money receipts realized in the sale of goods. The prices of goods as a rule include the full cost price and, in addition, a predetermined money accumulation.

The cost price of a product represents outlays of an enterprise for labor and for the means of production (capital goods and materials). An appropriate portion of the money receipts serves in part to replenish the means of production used up, and in part for distribution of the social consumption fund in correspondence with the quantity and quality of work of the workers. Along with these wage payments, deductions are made for a social insurance fund. The part of the proceeds representing accumulations and corresponding to the value of the surplus product is employed to expand production in the enterprise, in related branches of industry and in other branches, and to satisfy such joint needs as the functions of defense, administration, and implementation of social and cultural measures by the socialist state.

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Cost accountability presupposes that financial resources be placed at the disposal of each enterprise. The amount of these funds is limited by the figures of the plan which guarantee the fulfillment of production quotas, while observing the necessary economy. An enterprise uses its means for the aims specified by the plan and bears responsibility to the state for their realization.

Resources necessary for the further growth of an enterprise are obtained in the first instance from the proceeds of the enterprise's own operations.

The enterprise is directly interested in the successful fulfillment of the quantity and quality goals of the plan. As a result of fulfillment, profits are formed in the enterprise which are employed for contributions to the budget and for expansion of the activities of the enterprise.

Financial resources of an enterprise are essentially at the direct disposal of the enterprise. In the production process these funds are paid out for raw materials, fuel, wages, and other necessities.

For the remaining portion of the proceeds of an enterprise, i.e., that part of the accumulation reserved for the expansion of production and the satisfaction of joint needs, a group of centrally administered uses is established. This part of the funds, corresponding to the value of the surplus product, is directed into the financial system.

Amortization charges equivalent to the depreciation of the basic capital (capital goods) also enter into the breakdown of production cost, along with payments for raw materials, fuel, electrical power, and wages. The employment of these is centrally administered through the financial system in the way the accumulations of an enterprise are handled.

The growth of labor productivity and the lowering of production costs in all branches of the economy (although first of all in heavy industry) are the two foundations of accumulations in the internal economy. In 1931, at a meeting of administrators, Comrade Stalin said, "It follows that in strengthening and developing old sources of accumulation, it is necessary to succeed in making heavy industry -- and first of all machine building -- also contribute to accumulation."

The results of the efforts of each enterprise in raising labor productivity, in reducing outlays and in lowering production cost are reflected in profit figures.

The profits of an enterprise (after an obligatory minimum deduction of 10 percent for the budget) are as a rule employed to meet planned needs of the enterprise (or of other enterprises in the same branch of the economy) for additional funds for expansion of current production and capital outlays. The remaining unused profits go into the state budget as deductions from profits.

The expenses which were associated with the initial introduction of new technology (in particular, due to the low level of qualification of new cadres of workers coming from the villages into the newly constructed plants and to the existence of a large number of enterprises in which modernization had not been completed) necessitated setting prices for heavy industrial goods below production cost during the First and Second Five-Year Plans, which in turn required state subsidies to the metallurgical, machine construction, and other industries. This undermined the interest of the subsidized firms

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in the reduction of production costs. By 1936, the conditions for profitable operation had been created on the foundation of the new technology and the growth of cadres of qualified workers, and selling prices were therefore increased and subsidies discontinued. As a result, the struggle for lowering production costs in heavy industry was intensified, and its accumulations began to grow.

At present, selling prices, with very few exceptions, guarantee profits to each industrial enterprise if the targets of the plan are reached. This profit index (the relation of profits to the unit cost of production) is one of the most important qualitative criteria for evaluating the operations of an enterprise. The enterprise is directly interested in raising the profitability of production, which places free funds at its disposal. This involvement stimulates the manufacture of new types of products, replacement of scarce raw materials by substitutes, etc.

Incorrectly setting the degree of profit, thus differentiating the profit levels for different goods, may in the presence of inadequate control over product assortments lead to a breakdown of product planning, i.e., a run by the enterprises to production of highly profitable goods at the expense of the production of less profitable goods. Such breaches of planning discipline are contrary to the principle of cost accountability. One weapon in the struggle against them is that over-fulfillment of planned profits obtained by failing to fulfill the plan for the whole range of products is not to be considered an indication of good operation of the enterprise.

Monetary accumulations coming to the enterprises of each branch through the sale of their products do not quantitatively correspond to the value of the surplus product manufactured in that given branch. As a matter of fact, the proportion of the value of different commodities representing the value of the surplus product is to a large measure determined by the productivity of the labor engaged in producing these commodities. At the same time, the financial accumulations embodied in the proceeds of the branches which are models for high productivity of labor and which are equipped with the latest in technology (equipment construction, machine-tool building and the defense industries) are relatively low compared to the accumulations of the food and other light industries, which do not always have these prerequisites for such high productivity at their disposal. Thus, in 1938 the proportion of the total internal-industrial accumulation (profits and turnover tax receipts) attributable to heavy industry was only 16 percent, while the food industry accounted for 50 percent.

Such divergence among participating branches and enterprises in the creation of surplus product and between their contributions to the aggregate fund of money accumulation is caused by differences between their respective selling price and cost levels.

In a capitalist economy the difference between cost and price is determined by the law of average value of return and by the oscillation of the price level about the cost of production under the influence of supply and demand. In the Soviet economy the capitalist law of profits does not operate. Investments in various branches of the economy are set by the state in accordance with developmental proportions for the national economy as set by the plan. The prices of goods sold by state enterprises are also not subject to the influence of supply and demand.

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Differences between prices and costs are determined by the course of production and consumption of various goods which in turn is determined by prices.

Differences in the level of prices in relation to production costs, and hence differences in the level of accumulations for various commodities are established for the purpose of planned regulation of consumption and stimulation of economy through utilization of substitutes in production. Thus, raising the low prices of fuel played an unquestionable role in reducing consumption by sovkhoses and machine-tractor stations. A much higher price level was established for consumers' goods occupying a secondary position, while lower prices were set for objects of direct necessity. Comparison of, for example, the prices of vodka and of bread or potatoes, of fancy shoes and children's shoes, of women's purses and school briefcases, etc., shows that the general price level of consumption goods is established in the interest of the consumption of the masses.

Prices of goods in the Soviet economy are one of the factors governing apportionment of the national income into the accumulation fund and the consumption fund. This extremely important function, which secures the most favorable combination of the development of the country's technological strength, the raising of workers' cultural and material standards of living, and strengthening of the military potential of the state, is determined both by the natural form of the newly created social product and by the established cost relationships; in particular, by the wage funds and the price level of consumer goods.

Prices set in the interests of a rational distribution of the national income and for their planned influence on consumption may lead to the development of inordinately high accumulations in various branches of the economy. Prices of vodka, tobacco, candy, etc., produce scales of accumulation, which, if returned in their entirety to enterprises as profits, would give an abnormally high degree of profits to these products.

Under such conditions, the enterprises would be very little interested in lowering production costs. Even significant production attainments would be inconspicuous in comparison with the enormous profits forming under the action of the price factor alone. Therefore, such excess aggregations are accumulated by the state by means of a turnover tax and do not enter into the profits of the enterprise. This method of withdrawing finances regulates the profitability of production and serves to strengthen cost accountability as well as to provide revenues for the state budget.

Money accumulations are distributed in the Soviet economy as state funds only.

This distribution proceeds, as we shall see, through two basic stages. First, financial resources representing the surplus social product are brought into the turnover of various branches through the price system. Second, by means of turnover taxes and deductions from profits an important part of these money accumulations of the economy are collected by the state budget and distributed among enterprises and organizations in accordance with their requirements as specified in the plan. The balance of the accumulations is left at the disposal of the enterprises and branches of the economy.

The methods and organizational forms involved in placing financial resources in the hands of enterprises and economic organizations depend upon the nature of capital turnover in the industry.

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The distinction pointed out by Marx between objects of labor and means (facilities) of labor, according to their roles in the production process, is important for a socialist economy as well as for a capitalist economy.

It is on this basis that the distinction is made between the turnover of that portion of an enterprise's capital which represents the value of property, equipment, machines, etc. (basic capital), and of that portion of the capital which represents the value of raw materials, fuel and other working funds, and also the value of finished products and of money resources (working capital).

The cost of production facilities (capital goods) only gradually depreciating in the production process is charged to the finished production cost in an amount depending upon the rate of depreciation, and this is included in the production cost of the product as an amortization charge. The amortization standard varies from one branch of our economy to another at 5 to 8 percent per year of the initial cost of the capital goods (buildings, motors, machines, etc.). Thus, means expended for the creation of capital are made good in the cost of the finished product and are returned in a money form in the receipts on this product over a period of 15 - 20 years of operation of an enterprise.

Inasmuch as capital goods participate in production until their complete deterioration, demanding only partial renewal during overhaul, sinking funds may only partially be expended by an enterprise on the maintenance of its equipment, to the extent of a definite, fixed portion set aside for the express use of overhaul. The remainder of these funds becomes part of the total financial resources of the state, and is employed for needed capital construction both in the given enterprise and in other enterprises and branches of the economy.

Expanded socialist reproduction necessitates a constant flow of new investments for the construction of new and the expansion of existing facilities.

The surplus product of the socialist economy is the material base for these investments, the funds for them being drawn essentially from the accumulations of socialist enterprises (and also, as just mentioned, at the expense of a portion of amortization deductions).

The turnover of working capital of an enterprise proceeds in another fashion. The cost of objects of labor expended in a single production cycle enters in its entirety into the cost of the product, and these production outlays are returned in their entirety in a money form in the receipts of the enterprise.

The production cycle in most branches of industry is measured in days (except for those where an extended processing period is associated with the necessity of subjecting raw materials or products to the action of the elements, to long chemical treatment, etc.). Materialized values should be in the process of production during this period (i.e., raw and processed materials in various stages of production).

In addition, the technical-economic conditions of preparing raw materials and fuels, forming a parts reserve, dispatching the finished product, etc., necessitate interruptions in product flow for definite periods at the various stages of production. As a result of these factors, a period of turnover of working funds and of funds for exchange is built up, the length of which determines the turnover of the working capital of an enterprise.

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Funds paid by an enterprise for raw materials, fuel, commodities and labor are returned in a short time in a monetary form. During this time, however, the accumulation of inventory and goods in process requires a continual flow of specified funds into the production process. At any given moment, the working capital is distributed in a definite way -- in production reserves, in goods in process, in finished products, in money funds and in accounts with purchasers.

Stores of raw materials, fuel, semiprocessed goods, etc., expended in the production process are replenished from the receipts of the enterprise; new goods enter a working stage immediately after the finished product is removed; commodity inventories of the enterprise are reduced by shipments and are replenished by finished goods from production. The working capital advanced to an enterprise is constantly being transformed in the same way from one phase to another, periodically taking the form of material stores, of goods in process, and of finished products.

A growth in the volume of production also demands, as a rule, an increase of the working capital advanced to an enterprise. Such increments in working capital, as with capital investments, are met for the most part by internal economic accumulations, discounted and distributed centrally by the state.

The scale of the working capital required by enterprises and by entire branches of the economy is established for each planning period by state planning organizations on the basis of statistics on the rate of turnover of capital in the various stages of the production and distribution processes. Thus, norms in days are established for fuel, various types of basic raw materials and goods, auxiliary stores of materials, unfinished produce, completed products, etc., by consideration of the normal length of stay of goods in each of these stages.

The working capital required by an enterprise is computed on the basis of the norms and average daily requirements for appropriate types of raw materials, fuel, and finished goods. The magnitude of the gross product of the enterprise and the rates of growth of expenditures within the production cycle determine the necessary amount of capital tied up in unfinished production. The norms for the finished product and its average daily output indicate the capital necessary for the formation of backlog supply ready for shipment. The total sum of the working capital is computed, with allowance for the tasks (posed by the plan) of speeding up the separate stages of the production cycle. A comparison of the estimated planned total of working capital with that actually possessed by an enterprise indicates the amount of additional resources necessary or the presence of superfluous capital available for withdrawal and redistribution to other enterprises in the same branch, or, if there are surpluses throughout the branch as a whole, for withdrawal into the budget.

Cost-accountable enterprises independently use and allocate working capital that they produce; the amount of capital produced is established by the state for each period, proceeding from the plan figures of product output and of the rate of turnover of capital in the production and conversion process.

The formation and distribution of financial resources in the course of operations of enterprises and branches of the economy are established in their financial plans, which in the majority of branches are drawn up in the form of a balance of income and expenditures. The revenue of an enterprise from the sale of its products and the other sources of its income (for example, allotments from the state) are entered in the income and expenditure balance on the basis of the planned sale of products at established prices. Opposed to these items of income are placed expenditures for production in accordance with the

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basic plan, based on production costs. In the balance of income and expenditures turnover tax payments for the sale of products are also shown, and the planned profit of the enterprise is computed. Moreover, the balance includes not only expenditures associated with current production, but also outlays ensuing from the expansion planned for the enterprises, i.e., investments in working capital and in capital construction. As a result of a comparison of profits and new investments, the quantity of free profits available for withdrawal into the budget is determined, or on the contrary, the financing required by the enterprise over and above its own resources is established.

The interrelationships between an enterprise and the financial system are not, however, exhausted by the above. In the course of operation, the necessity arises for distribution of funds in the form of short-term credit.

In a capitalist economy the migration of capital (determining the rate of expansion of reproduction) proceeds through the loan-capital market. Credit, especially investments in stock, facilitates the centralization of capital and its employment in those branches of the economy which provide the most profit. Reserve funds of capitalist enterprises, profits seeking the most favorable employment, the liberated working capital of those enterprises which under the influence of market conditions curtail production, the income of rentiers and the savings of noncapitalist classes, etc., are all held in bank deposits and in notes. Investments in the basic and working capital of new and expanding capitalistic enterprises are made in large measure from these means.

The centralization and movement of money capital, for the most part in the form of credit, result from the productive relations of capitalism, i.e., private ownership of the means of production and the law of profits. The separation of the ownership of capital from the management of capital makes it possible for the owners -- loan capitalists -- to take advantage of the fruit of capitalistic exploitation and to preserve their right of ownership without taking a personal part in the organization of production and conversion.

Transactions of loan capital do not exist in the Soviet economy. For the planned movement of the resources of enterprises and economic organizations, the system of budgetary appropriation has the greatest significance. However, the need for credit does arise in the economic functioning of the system, and is handled by the State Bank.

The turnover of capital of socialist enterprises is connected with a constant liberation of resources in a money form, at the basis of which lies the production and transfer of goods representing the social product.

Such liberated money capital cannot be thought of as superfluous capital for the enterprise. The liberation of means in a money form has only a temporary character, and the amount of the free funds constantly varies. An enterprise disposes its working capital in amounts specified by already established norms. In the meantime, its supplies of raw materials and fuel are constantly being depleted in the production process, and are replenished at definite intervals of time. Until a subsequent delivery, the stock level of these supplies is below the norm, and corresponding amounts of capital are held in money form. Further, the figures relating to unfinished production provide for wages according to the stage of processing of the materials; actually, wages are usually paid twice a month. This conditions the formation of free money capital by an enterprise. Finally, money balances are formed in an enterprise in consequence of a delay in the turnover of accumulations resulting from the noncoincidence of receipt of income from sales and payments to the budget, to banks financing capital construction, etc.

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Cash reserves take care of steady payments to the budget, and to suppliers, laborers, and employees. These reserves may be used only temporarily for the needs of other enterprises and branches of the economy, since they must be available on immediate demand of the owner-enterprise for its own payments. Such enterprise capital must be deposited in a credit account in the State Bank. All enterprises and organizations are required to hold their free funds in accounts in the State Bank, except for minor cash holdings necessary for small current payments. They may make payments from their balances in the bank; the State Bank also pays interest to the owners of accounts for the use of the funds. The State Bank accumulates the money capital and combines the accounts of state and cooperative enterprises, of the budget and of all institutions and organizations.

At the same time, demands for credit resources arise in the functioning of the system.

Capital invested in the working funds of enterprises is systematically, through a short period (equivalent to the period of complete capital turnover), freed in a money form, so that it may again take the form of material elements of production. This makes it possible to create special forms of control over capital turnover in various phases of the production and conversion process. Indeed, the quota of working capital given to an enterprise in accordance with the figures of the plan creates a system of control over the turnover of its capital and over the gross production cost of the product. As a result of expenditures in production in excess of the planned and of a slowdown in the turnover of capital, an enterprise will be unable to meet its payments and will be in a difficult financial position.

Not all operational difficulties of an enterprise are fully manifested in this way, inasmuch as they may be covered by the internal resources of the enterprise. A more detailed control, approximating the course of the production process, may be realized if funds are placed at the disposal of an enterprise for definite, concrete stages of the turnover of its means with the obligation of their recovery in a period corresponding to the planned period of capital turnover in the given stages. For example, if specific funds are available for the formation of a stock of raw materials but only for a period corresponding to the expected retention of this stock, or if funds to cover goods in process are available only for the length of time that these goods are in process, then an enterprise is compelled to observe these planned periods.

Such an arrangement is highly important for distributing working capital to enterprises in cases where temporary requirements for additional funds arise, for example, in branches of the economy operating on a seasonal basis or depending on a seasonal supply of raw materials. In these instances it is necessary to place additional funds at the disposal of the enterprise, but only for the period they are actually needed, and to recall them from the account of the enterprise to the degree that the need has passed.

Advancing capital in this way, thus providing a temporary increase of working capital, and control by the ruble over the turnover at separate stages of the production and conversion process is realized in our economy in the form of bank credits.

The State Bank issues loans to enterprises for specific purposes within the limits of the planned quotas and for the expected periods of capital turnover. To guarantee the return of loans on time, the enterprise receiving credit must strictly observe these turnover periods and not immobilize means to a greater extent than planned.

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The distribution of capital in the form of credit is widely employed in state transactions with kolkhoz and cooperative organizations. Credit to kolkhozes and cooperatives (both consumers' and professional) is provided on the principle of long-term credit. The formation of money accumulations of these organizations is also handled on a credit basis (non-dividend funds of kolkhozes, long-term loans of industrial cooperatives, etc.). The distribution of capital in the form of credit is necessitated in these cases by the character of socialist ownership as ownership by the cooperative and kolkhoz and not by the whole people or the state.

The state, through the Agricultural Bank, gives financial assistance to kolkhozes under the condition that state appropriations be returned with interest.

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The formation of monetary accumulations by socialist enterprises, the disposition and use of these funds for the requirements of that branch of the economy, the surrender of funds for the needs of the state, and finally the coverage of the requirements of enterprises for financial resources by state capitalization and credit -- all these are accomplished on the basis of the state plan, and are established in the production-financial plans of the branches of the economy. The greater portion of the money resources collected and distributed by the Soviet financial system is accumulated and used by state enterprises. Therefore the finances of the branches of the national economy are the foundation of the USSR system of state finances.

Just as state enterprises are the components of a unified state economy based on state ownership of the means of production and guided by a single state plan, so the finances of the economy are an organic component part of the whole USSR system of state finances. The methods of organization and planning of branch finances resulting from the principles of cost accountability are organically associated with plans for disposition of funds through the state budget and banks, and the scale of operations and forms of activity of the latter are determined by the tasks of the financial administration of the branches of the economy.

The branches of the national economy are intimately tied in with the state budget and with the operations of the State Bank. Accumulations resulting from the operations of the branches enter the state budget through turnover taxes and deductions from profits. The State Bank holds the temporarily free funds (cash reserves) of enterprises and organizations in a credit arrangement.

Enterprises receive allocations for the formation and replenishment of their own working capital and for capital construction from the state budget. Enterprises receive working capital in the form of short-term loans from the resources of the State Bank.

The state budget is drawn up and implemented by the Peoples' Commissariat of Finance, a Union-Republic commissariat. The State Bank of the USSR is the sole source of short-term credit for production, the accounting and cash center for the whole Soviet economy, and is also the agent for the issue and withdrawal of cash money. It operates on the authority of the Union Peoples' Commissariat of Finance.

The state budget realizes the financing of capital construction through special banks, which receive all financial resources designated for capital

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construction and which control the employment of resources and the realization of the planned value of construction operations.

Special construction financing banks are organized according to branch designation (Industrial Bank, Commercial Bank, Agricultural Bank, the system of Communal Banks) and are under the People's Commissariat of Finance.

Banks for the capitalization of construction also receive the accumulations of kolkhozes and cooperatives in long-term deposits, and give long-term loans to such organizations from these deposits and also from special state appropriations.

The state budget, in addition to accumulating the financial resources of the economy, also draws in a portion of the money income of the population. This is realized both by taxation and by state borrowing.

Moreover, the means of the people are used by the state through special financial institutions: savings banks which receive deposits of the people and state insurance organs creating insurance reserves from specific appropriations which guarantee compensation of losses resulting from accidents, elemental disasters, etc.

The state budget finances state organs performing administrative, defense, and sociocultural functions, as well as the economic organizations.

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